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SUBJECT: SCENESETTER FOR VISIT OF BUSINESS EXECUTIVES FOR
NATIONAL SECURITY TO TUNISIA

¶1. (SBU) Embassy Tunis warmly welcomes the Business Executives for National Security (BENS) delegation's September 13-14 2006 visit to Tunisia. This cable provides a brief overview of the political situation in Tunisia, as well as a summary of the business climate.

The Bilateral Relationship

¶2. (SBU) Your visit takes place in the context of a long-standing and positive bilateral relationship; the U.S. was the first western power to recognize an independent Tunisia in 1956. Recent high-level visits include a February, 2006 visit by Secretary of Defense Rumsfeld, a May, 2006 visit by then-Deputy Secretary of State Robert Zoellick and a March, 2006 visit by Assistant Secretary of State for Near Eastern Affairs David Welch.

¶3. (SBU) The Tunisian government considers external security as one of its top concerns which highlights the value it places on its historic and robust military-military relationship with the United States. Unfortunately, and against the backdrop of a very limited national budget, new equipment is needed to match an evolving and common threat-international terrorism. At present, Tunisia receives approximately 8-10 million USD in Foreign Military Financing and nearly all of that money is used for the partial maintenance of its aging fleets of U.S.-origin equipment. This makes any significant recapitalization of the Tunisian Armed Forces at least problematic for the near future unless additional third country financing is secured. That said, Tunisia has been and remains an active participant in United Nations Peacekeeping Missions. The GOT is supportive of several military issues of mutual interest, takes part in NATO Seminars and activities, and is extremely appreciative of US assistance (which includes IMET, USEUCOM Humanitarian Assistance, Counterterrorism related seminars, and other activities.) In fact, the GOT reciprocated the USG's past generosity with a symbolic gesture of two C-130 loads of humanitarian assistance in the wake of Hurricane Katrina. You may wish to thank them for this effort and the Tunisian Red Crescent's gifts included blankets, tents, diapers, detergent, blankets, and water. In total, it represented some 20 tons of supplies.

¶4. (SBU) The visit also comes at a time when the USG is working to advance a number of issues in Tunisia, including the promotion of greater democratic and political freedoms and economic reforms.

Political Overview

¶5. (SBU) Tunisia is a constitutional republic with a population of approximately 10 million, dominated by a single political party, the Democratic Constitutional Rally (RCD). Zine el-Abidine Ben Ali has been the president since ¶1987. Although three opposition parties contested the October 2004 presidential election, official results indicated that President Ben Ali won approximately 94 percent of the registered popular vote. The official turnout was reportedly higher than 90 percent of registered voters, although there were indications that voter turnout figures were artificially inflated. Tunisia has a bicameral legislature. In addition to the Chamber of Deputies, a second legislative body, the Chamber of Advisors, was created in a 2002 referendum amending the Constitution. The legislature plays a limited role as an arena for debate on national policy but never originates legislation and virtually always passes bills presented by the Executive with only minor changes.

¶6. (SBU) Tunisia proudly -- and justifiably -- calls itself a "country that works." Despite Tunisia's relatively small economy and lack of natural resources, the Tunisian government has proven itself capable of providing basic education, health care, housing and a workable infrastructure to its population. Tunisian women enjoy more rights and opportunities than in any other Muslim country. As a result of these policies, the majority of Tunisians are generally moderate and desire a government intent on modernizing the country and integrating it fully into the world economy.

¶7. (SBU) Despite these positive parameters, political liberties remain tightly controlled and civil society development is stifled. Tunisia's sluggishness on political

reform has been a point of contention in the U.S. - Tunisian relationship in recent years. Although President Ben Ali has introduced some positive political reform steps in the past year (pardoning some political prisoners, lifting a form of censorship for print media, registering a new political party), civil society and human rights groups remain deeply cynical and continue to report many instances of government harassment, intimidation, and limits on their activities. Journalists reject the suggestion that press censorship has ended and local media usually lacks any meaningful coverage of domestic political issues. According to the 2005 Reporters Without Borders list of Worldwide Press Freedom Index rankings, Tunisia was 147 out of 167. National elections - both presidential and legislative - will be next held in 2009.

Business Climate

¶8. (U) Tunisia has the most diversified economy in the region. It has one of the highest standards of living on the entire continent. The country does not have vast reserves of hydrocarbons like its neighbors Algeria and Libya but has prospered under long-standing government policies to develop manufacturing industries for export and to promote tourism. At the same time, social programs limit population growth, provide a high standard of education, and ensure a relatively decent standard of living for all. The average annual income is approximately 3000 USD.

¶9. (U) The Tunisian economy is maintaining average annual growth of almost 4.5 percent. Inflation is running at about 2 percent annually and hard currency reserves of approximately 4.25 billion USD at the end of 2005 are equal to 121 days of imports. Manufacturing industries, producing largely for export, are the motor of Tunisia's economic growth and a major source of foreign currency revenue, accounting for nearly 90 percent of exports. Labor-intensive plants, historically producing textiles, and more

recently, those producing automobile components, create much-needed jobs. Textiles have long been the primary source of foreign currency revenue, with more than 90 percent of production being exported, but foreign orders have slowed in the face of increased global competition. A government export promotion center (Centre de Promotion des Exportations - CEPEX) is responsible for identifying new export markets. Tourism and mechanical and electrical equipment sales are the second largest source of foreign currency revenue. About 6.4 million tourists visited Tunisia in 2005, compared to 6 million in 2004, bringing in nearly 2 billion USD in convertible currency. Agriculture plays a major role in Tunisia, and engages approximately one-fifth of the population. In 2005, Tunisia exported nearly 940 million USD of agricultural products, mainly olive oil, seafood, dates and citrus. The government still retains control over certain strategic sectors of the economy (finance, hydrocarbons, the national airline, electricity and gas distribution, land-based telecommunications, and water resources), but the role of the private sector is increasingly important. The Government of Tunisia is now studying the economic impact of a proposed liberalization of petroleum product price controls, especially since energy imports accounted for 34 percent of all imports through June 2006, and petroleum products are subsidized.

¶10. (U) Accessing the Tunisian market can be a challenge for U.S. companies. Geographically part of Africa but culturally more Middle Eastern or Mediterranean, this former French protectorate has extremely close ties to Europe. These have been reinforced by Tunisia's Association Agreement with the European Union (EU) which will create a free trade zone by 2008. Over 70 percent of Tunisia's foreign trade is with Europe. Tunisia's other major trading partner is Libya. In 2005, total Tunisian imports were 12.86 billion USD and exports totaled 10.2 billion USD.

¶11. (U) Foreign Direct Investment (FDI) in Tunisia was estimated at around fifteen billion dollars and has been growing steadily, thanks mainly to Spanish companies and British Gas. A large part of FDI has also come from the GOT's efforts at privatization, which have led to the sale of many state-run enterprises and assets. FDI usually falls into either the food products, automotive or telecommunications and electronics sectors of the economy, but retail distribution is growing as well. While the GOT has made movement toward liberalization of the marketplace, it still directs FDI toward offshore manufacturing

industries that are primarily export-oriented: The GOT is not yet fully comfortable with investment that flows toward foreign firms that compete with local ones, or that mean foreign exchange leaving the country. The U.S. has been working towards a Free Trade Agreement with the GOT since 2003, but even the preliminary Trade and Investment Framework Agreement (TIFA) is still in its working stages. There are concerns regarding the GOT's failure to relinquish its control over major sectors of the economy, including its position as the controlling shareholder of nine major Tunisian banks. This control has been named by some as the reason there is little interest in stocks and bonds, leaving the stock market without strong capital investment.

¶12. (U) The International Monetary Fund has lauded Tunisia's performance in the agricultural sector in recent years, but has suggested that the country is in need of a policy which would bring down public sector debt. The convertibility of the Tunisian dinar is another issue which is repeatedly addressed in economic circles, but the government still does not allow physical importation or exportation of the currency. These laws remain based on the Foreign Trade and Foreign Exchange Code of 1976, which the government has said it is reviewing. The dinar is convertible for most bona-fide investment and trade operations. However, the inability of the average Tunisian citizen to possess an international credit card, and the strict restrictions on the amount of currency allowed out of the country, have led many to question the true gains made in this arena. The

dinar is traded in an intra-bank market. Trading is based on a fixed basket of currencies (the Euro, the U.S. dollar and the Japanese yen) established by the Central Bank. The dollar/dinar value fluctuates on a daily basis, with the dollar trading most recently at approximately TD 1.30. Since the beginning of 2005 the dinar has depreciated more than 12 percent against the U.S. dollar but has gained 1 percent against the Euro. The GOT has hinted that the dinar will not be fully convertible before 2009.

¶13. (U) The Tunisian American Chamber of Commerce (TACC) is a nonprofit trade association developed to facilitate trade between the US and Tunisia. Since Tunisia hopes to set itself up as a tourist destination and a palatable investment option for Americans, TACC helps support U.S. companies investing in Tunisia. The organization has pushed for a free trade agreement between the two countries, and is a strong advocate for liberalizing the Tunisian market system. TACC also focuses on bolstering regional trade relations in the Maghreb. TACC hosts a variety of conferences and seminars on the bilateral economic relationship between Tunisia and the US, and organizes trade missions at exhibitions and trade fairs in both countries. TACC offers English language training courses, as well as courses for business executives, and it also sends a group of Tunisian business leaders to Washington annually to meet with US government representatives and fellow nonprofits. One of TACC's greatest strengths may be that it frankly and openly addresses troubling issues affecting many world economies, from the problems arising from "brain drain," to whether or not the local currency should become convertible. TACC holds and publishes debates on a variety of trade and industry issues; a vital part of any economy.

Security

¶14. (U) The crime rate in Tunisia remains fairly low, but has been on the rise in the past few years. Violent crime is still a relatively rare occurrence, especially in the wealthier areas where tourists and expatriates tend to congregate, but theft and pick-pocketing of foreigners has become more commonplace. Females walking alone are common targets. Burglaries of private residences have also seen an upward trend.

¶15. (U) While American citizens or interests have not been the target of any terrorist attacks in Tunisia, the threat of terrorism is not absent from the country. In 2002 a faction of al Qaeda bombed a famous synagogue on the island of Djerba; the first al Qaeda-related terrorist incident after 9/11. The GOT remains concerned about signs of increasing Islamic extremism.

¶16. (U) The Tunisian press is routinely critical of U.S. foreign policy, reflecting widespread cynicism about U.S. policy in the region. These sentiments have not led to any violent anti-American demonstrations or activities, however. On July 24, civil society and trade union activists

organized a rally in downtown Tunis to express solidarity with the Lebanese people. While some demonstrators carried anti-U.S. banners and chanted anti-U.S. slogans, the event remained peaceful.

Public Diplomacy

¶17. (U) Your visit represents an important opportunity to engage Tunisian audiences and to listen to local perspectives. Especially since the recent events in Lebanon, Tunisian public opinion and the press has been more critical of US policy. Tunisians do not agree, in general, with the position of the USG regarding the Lebanese and the Palestinian-Israeli conflicts. This has colored their perceptions of Americans in general. When Secretary

Rumsfeld and then-Deputy Secretary of State Zoellick visited this spring, they were articulate interlocutors and their visits resulted in positive press coverage of US policy.

¶18. (U) The Public Affairs Office at the Embassy has a very active exchange program with many Tunisian and American students and faculty participating. It recruits for over twenty-five different exchange programs, including Fulbright scholarships for those seeking advanced degrees, and programs for high school students. The Public Affairs Office also arranges for speakers, cultural performances and workshops on a variety of topics. Despite criticism of American policies, most Tunisians are eager to continue the longstanding friendship between our two countries. We trust your visit will reinforce this relative advantage.

BALLARD